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Increase In Public Expenditures

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Increase in Public Expenditures

Report Introduced by

Dr. Thomas S. Adams

Secretary National Tax Association, and State Tax Commissioner of Wisconsin, as Chairman of Committee of the National Tax Association. Presented at the eighth annual conference.

THE increase in public expenditures, which means an increase in taxes, is daily arousing wider interest throughout the United States. How to lower them without impairing the efficiency of city, state and national governments is the question upon which many experts are working. Its solution means the elimination of one of the elements of the high cost of living. A committee of the National Tax Association made an interesting report upon this subject at the recent tax conference held in Denver. Dr. Thomas S. Adams, member of the Wisconsin Tax Commission and Secretary of the National Tax Association, presented the report as chairman. We are pleased to be able to publish it in advance of official publication by the Association, as the subject-matter is of immediate importance.

I.

IN considering this question, your committee has been impressed with the fact that a close approach to an agreement exists among qualified students and investigators concerning the nature of the problem and the general lines along which its solution must be sought. The crying need is to overcome indifference and inertia, to start and maintain persistent action along some of the many lines of improvement which immediately suggest themselves to practically every observer. The problem is not so much what to do as where to begin and how to arouse a lasting impulse toward improvement.

II.

THE LAST FIFTEEN YEARS have witnessed a striking expansion in the functions and cost of government. Statistics on this point have already been presented at this session. Public expenditures have increased far more rapidly than population, and in all probability more rapidly than wealth or income. Certain it is that taxes have become not only a source of irritation and inconvenience, but a serious handicap to industry and a noticeable deterrent to enterprise and investment.

The seriousness of this movement is enhanced by the fact that a large number, probably a majority, of electors pay little or no direct taxes. They probably contribute a fair share—possibly more than their share—to the expense of government in the customs and internal revenue duties and other indirect taxes which they pay in the form of increased prices. But the fact that they pay is not

brought home to them in any vital way and they accept the direct state and local taxes which our representatives vote unrestrained by the potent check involved in direct taxpaying.

A Political Anomaly

AND THE HISTORICAL aspect of the question makes it doubly serious. Scarcely a decade has passed in the last century and a half unmarked by revolution or serious political protest against the increase in functions and cost of government; yet the protestants, when ushered into office and political control, found themselves unable to stem the tide. We pass no opinion upon the beneficence of this phenomenon. But in view of the unbroken historical expansion of government we cannot consistently hold out the hope that in this day and generation it can permanently be stopped.

This statement has no bearing in any direction upon current socialistic controversy. If subsequent history should prove emphatically that socialistic predictions have been ill-founded, we have no doubt, nevertheless, that it will witness a practically unbroken expansion in the activities of government. What can be fairly expected and resolutely required is that, for a considerable time at least and until private wealth and income have greatly increased, the future expansion of governmental activity shall be financed out of the savings which are so patently possible.

III.

UPON THIS POINT also there is a practical unanimity of qualified opinion. Great opportunities for saving exist within the lines of present American government. In most city and state governments there are some departments which overlap, while others are engaged in work which is no longer necessary. Careful consolidation of departments would in many instances reduce general and overhead expense. Government employees as a rule work neither so long nor so earnestly as those in private employment. Supplies and equipment are not purchased to advantage, nor properly charged and checked when distributed; specifications for bids are loosely or carelessly drawn in many cases; labor-saving devices are slowly and sometimes reluctantly introduced; there is great waste in public printing.

No Incentive for Economy

ABOVE ALL there is not the same incentive or reward for economy and consolidation and the elimination of waste in public as in private enterprise. The impulse to save is largely inhibited. Civil service reform has worked a marked improvement in the personnel of many governments, while graft and the misuse of public funds have ceased to be widespread and general evils. But civil service appointment has not and probably cannot effect very large savings, and the simple elimination of graft frequently leaves mere inanition and inactivity. In brief, the machinery of government is marked by a maximum of internal friction and displays little of that innate capacity to overcome lassitude and throw off disease which marks high vitality and efficient organization. The elimination of waste usually comes from without after a political upheaval. The innate power of adaptation to new conditions and the elimination of functions or members which have become useless is almost absent.

IV.

WHILE GREAT saving may be accomplished within the government organization which now exists, the elimination of this waste would be easier

and the improvement more permanent if certain fundamental defects in our political system could be remedied.

Education of Electors and Office Holders

FIRST: The first of these is the lack of intimate knowledge of what the government is doing. The electorate is sovereign, the ultimate master. It must pass judgment upon the work which its servants do. The electorate does not have this knowledge; the legislature does not have it; frequently the elective executive officers do not have it in any comprehensive way. Electors vote and the legislature passes appropriation bills without authentic facts before them. Administrative officers are frequently condemned for the things they do well, and applauded—or at least not condemned—for the things they do poorly. The effect of this upon the ambition and initiative of administrative officials can scarcely be exaggerated. Their work is frequently of a regulative character. It naturally irritates those who are regulated, however tactfully and considerately performed. It makes enemies, but—although it may be manifestly in the public interest—it does not make friends of corresponding number and strength.

Ignorance of public work, its difficulties, its effect and its cost and indifference—the product of ignorance—are probably the most fundamental causes of inefficiency in the public service. They can be remedied only by developing an adequate agency to measure governmental performance, ascertain results and costs on a comprehensive scale and continuously bring the facts home to the public.

A Check and Balance on Various Departments

AT PRESENT there is in most places no such agency. The members of city councils and state legislatures change so frequently, serve for terms so short and work in an atmosphere which makes it practically impossible for them to ascertain accurately what the departments of government are doing. Elective executives of the higher type, such as mayors

and governors, are usually elected for a term so short and are necessarily so preoccupied with matters purely political, that they cannot find time to ascertain with certainty whether the work of each department is being conducted at a cost commensurate with the results achieved. We have no criticism to pass at this point. On the contrary, when we consider the conditions under which such officials usually work, the uncertainty of their tenure of office, the cost in time and money of securing nomination and election, we can only wonder that they find as much time and energy as they frequently do find to devote to the real work of their office and securing a real acquaintanceship with the efficiency of the various administrative departments.

Private Organizations Doing Splendid Work

THE MAIN problem of ignorance and inertia is being attacked by efficiency bureaus and taxpayers' associations, formed for the most part under private auspices. They have a great and a permanent work to do and it should receive every encouragement. But the public itself must develop similar agencies. Just how this should be constituted is a question upon which it is unnecessary to pronounce here. They may be developed as a subsidiary agency of the legislature, or the chief executive officer, or may be detached from both and allied with a quasi-independent civil service bureau. But the work of regularly testing governmental performances and publishing the results is an indispensable requisite of the introduction of real efficiency.

Discussion of Responsibility

SECOND: Another fundamental defect is found in the diffusion of power and responsibility. The people elect a legislature to carry out their will and then ordinarily split it into two parts in order that the one may check the other. Executive officers are then also elected, taking their mandate directly from the people to check and be checked by the legislative houses. Above all, the courts and a constitution often operate to further check others. This is organization for impotence, not for results. Govern-

ment becomes under such conditions a farcical game of "passing the buck." Responsibility is shifted from the legislature to the executive, to the judiciary, to the constitution, back to the people and on again through the same vicious circle. Much time and the best brains of those in the public service are used in overcoming internal friction. If the people want little done, and that little done in an expensive way, we have developed a marvelously effective way of satisfying the people's desire. If the people want something done, and want it done economically, responsibility and power must be definitely localized.

This does not mean "more legislation" or "more government." It means only economical accomplishment of whatever the majority decides to undertake. Neither does it mean the sacrifice of local democracy and home rule. It means only the definite allocation of power and correlative responsibility. Concretely, it means the simplification of governmental machinery, reduction in the size of legislative bodies, shortening of the ballot, closer relationship between executive and legislative departments, introduction of the budget, and the development of the function of continuous examination and public display of administrative performance and efficiency.

Present Taxation Methods Faulty

THIRD: In this connection it should be pointed out that the burden imposed by increasing public expenditures is aggravated by the methods of taxation employed by the federal, state and local governments. The indirect taxes imposed by the federal government may be both a necessary and on the whole a desirable form of taxation. If this be true, however, the federal government should take pains to ascertain and make public how this burden affects the different sections of the country and different classes of the population. To impose hundreds of millions of taxes without knowing where they fall, at least in an approximate and general way, is to invite the errors that follow upon ignorance and misapprehension.

Secondly, our state and local taxes on business fall upon the successful and un-

successful alike; weigh nearly as heavily upon the new enterprise whose future is uncertain as upon the established business whose success is reasonably assured. All this arises from the American practice of taxing investment and realized wealth, rather than income. We do not assert that business enterprises, as distinguished from land and investment, are taxed either too much or too little. But there is strong reason to believe that whatever amounts should be raised from business enterprise should be raised by different methods, methods which will place a greater relative burden upon business concerns whose earnings are high and well assured, and a smaller relative burden upon new enterprises and those which have not reached the dividend-paying stage. Concretely, we recommend that this association arrange through committee for an investigation and report upon the methods of taxing business enterprise.

V.

Recommendations

First.—Testimony of qualified observers is practically unanimous to the effect that enormous savings may be accomplished within the limits of government as now organized. The burden of taxation has become a positive check to business enterprise. Under the circumstances it should be insisted that further extensions of governmental activity shall for a considerable period at least be financed out of savings.

Second.—To accomplish this result it is necessary to overcome the existing indifference of the electorate and then to ascertain where economies can be effected and how successfully introduced. To these ends we recommend:

First, that this association adopt a resolution urging congress to direct the census bureau to publish annually for a selected group of states, counties, towns, villages and cities, statistics of expenditure, taxation, public debt and wealth, including in this group—similar to the registration area used in vital statistics—those states and political subdivisions whose financial accounts are published promptly and in such form as will permit of consolidated statement.

Second, that a resolution be passed urging every state legislature which has not

already done so to require all political subdivisions to publish annually a brief statement showing the increase or decrease in expenditures, receipts, taxes and public debt; and that to this end (a) a member of the National Tax Association be appointed in each state to work for such legislation, and (b) that this committee be continued in order to keep in touch with these representatives, supply them with laws passed in other states, and such suggestions and assistance as it may be possible to render.

Third, to measure governmental performance and ascertain where economies may be introduced, national and state governments should establish bureaus of efficiency properly manned and equipped. These cannot take the place of private efficiency bureaus, taxpayers associations, and the like. The latter are indispensable and should be given every opportunity to examine and report upon the efficiency of public work. The public efficiency bureaus referred to may be associated with the legislative or chief executive department or given a quasi-independent status as a separate commission—as the circumstances of particular times and places may require—but they should be so constituted as to have the freest access to public offices, do their work continuously, and have their recommendations treated as other than mere academic proposals. They must be made an integral and permanent part of government, bent upon reducing cost.

Fourth, to make such bureaus effective, modern government must be simplified and the existing diffusion of power and responsibility corrected. The short ballot, and those modifications which logically go along with it, should be introduced. A single legislative chamber, reduction in the number of elective executive officers, closer relationship between legislative and executive departments of government, a budget which emphasizes the spirit but wastes no time and effort on the form of this procedure—are probably all necessary accompaniments of any movement permanently to reduce public expenditures and increase public efficiency.

Fifth, to get these movements under way and overcome existing indifference, a systematic propaganda should be undertaken for the betterment of existing conditions along the lines named. Such a movement can offend few persons or interests worth considering. Practically every one agrees that whatever functions government undertakes should be performed as economically as possible. We recommend accordingly the organization of a national taxpayers' efficiency association—or the assumption of this work by the National Tax Association—designed to awaken the people to the menace involved in the growth of expenditures, secure the publication of simple understandable statistics on this point, point out where economies may be effected, inform minor civil divisions in particular of the bureaus or agencies from which they

may secure expert help in reorganizing their accounts and reducing cost, and in short to spread and strengthen the work now being developed by the public and private efficiency bureaus already in existence.

The National Assembly of Civil Service Commissioners has already adopted a resolution recommending the creation of a central agency or bureau to supply information and expert assistance to the various civil service commissions throughout the country. This resolution further recommended the consolidation of such a bureau with a national efficiency bureau and the close coördination of local efficiency bureaus and civil service commissions.

It is not desired to interfere or compete with this work. The essential task of the taxpayers' association referred to would be to awaken a demand for such work. A widespread desire for greater economy and generous public support of those changes necessary to effect economy are quite as necessary and even more difficult to achieve than the technical work of introducing economical organization and operation itself. Such work can, profitably to the taxpayers of this country, be undertaken by this association or some allied body.

Finally we recommend the adoption of tax limitation laws similar to those existing in the State of Colorado. Such

laws should contain in substance provisions similar to the following:

(a) The taxes levied by any political subdivision should not exceed those of the preceding year by more than, say, 5 per cent except in cases of emergency.

(b) Whether an emergency exists shall be determined by some independent body, such as the courts, state tax commission, or board consisting of the principal elective state officers.

(c) In cases of emergency an increase in taxes not to exceed, say, 15 per cent may be authorized by the above board or agency.

(d) But any increase beyond the limit last named must be ratified by referendum vote within the political subdivisions concerned.

Respectfully submitted,

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